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ABSTRACT

Using data published by "Editor & Publisher," annual reports, and confidential material made available by publishers, this paper examines budgets for papers of varying sizes from 1947 to 1974. While expenses have been increasing more rapidly than revenue since 1947, newspapers are above average in rate of return on revenue. Earnings of 15% after taxes are not uncommon, though large metropolitan papers and papers with fewer than 25,000 circulation are much less profitable. The chief change in revenue over the past 27 years has been in advertising. In 1947, advertising typically accounted for two-thirds of total revenue, and national ads made up more than 12% of the total. Local and classified ads now have grown to nearly 70% of total revenue, while national ads have declined to less than 4%. Subscriber revenue has dropped from around one-third of total revenue to around one-quarter. The most startling increase has been in administrative and general expense. For the composite paper, this category represented 11% of all expenses in 1947, but 27% in 1974. Budget data are presented by circulation and a cost/demand curve for circulation and advertising is estimated. (Author/AA)

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TRENDS IN THE NEWSPAPER BUDGET

By

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Journalism, it has often been sadly noted, is a profession within a business. Whether the craft really achieves the rank of a profession is open to question, but there is no doubt that it depends upon a healthy business base. This study has been prepared in order that newsmen may know a little more about the business behind the profession.

Using data published by Editor & Publisher, annual reports, and confidential material made available to us by publishers, we have examined budgets for papers of varying sizes from 1947 to 1974. We have attempted to estimate profits and to chart trends in the various sources of revenue and items of expense.

How profitable are newspapers?

Until recently there were few reliable figures on newspaper profits. One advantage to the growth of publicly-held corporations has been that audited figures are available -- though even these are subject to interpretation. A great deal depends on how depreciation is accounted for, what items are lumped into general and administrative categories, etc. But some reasonable figures are available. Booth Newspapers, Inc., includes eight daily newspapers in Michigan, ranging from 35,000 to 130,000 in circulation, with an average of about 66,500. During the five years between 1966 and 1970, the company's net profit after taxes ranged from 10.6 to 15.1 per cent of revenue. During this time, the company owned no other businesses.

An average Booth paper would have received $5,626,250 in advertising revenue during 1970, plus $1,603,500 from its subscribers and $29,375 from all other sources, for a total of $7,257,000. Expenses were $5,405,500, taxes $9 ,875, tax investment credits were $26,375, and net income after taxes

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was $895,000 for a return on revenue of 12.3 per cent and a return on investment of 15.4 per cent. Returns before taxes are a little less than double these rates.

Newspapers vary greatly in their profitability, of course. At least one family newspaper showed a return of 40 per cent on revenue before taxes, in the 50,000 circulation bracket. Typically, however, the family-run newspaper is not well managed. Group ownership generally increases profitability.

Profitability also depends upon size and on domination of the market. Knight newspapers, whose properties in Detroit and Philadelphia face strong competition, also has three papers close to 500,000 circulation. Their after-tax income as a proportion of revenue has varied from 5.53 to 7.83 per cent in recent years. Newspaper earnings for the Times Mirror Company (Los Angeles Times, Orange Coast Daily Pilot, Newsday, and the Dallas Times Herald) have been running 7.8 per cent of revenue after taxes.

The remainder of this paper will take a closer look at both revenue and expense to see what has been happening over the last 27 years.

REVENUES

We have constructed a composite newspaper by averaging the available reports from newspapers ranging from 10,000 to 100,000 in circulation, for ease of comparison. We will also present available data broken down by circulation groups in the appendices.

Advertising has been the chief source of newspaper revenue for a long time. In 1947, it contributed two-thirds of the revenue for our composite daily, but by 1965 the figure was nearer three-fourths. Most of this increase occurred during the fifties, but the ratio continues gradually to increase.

Advertising may be further divided into local display, national, and classified. Local ads have always been the most important source for our composite. By 1972, they accounted for more than half of total revenue. (Table 1) National ads amounted to 12 per cent of total revenues in 1947,

but declined to 3.74 per cent by 1974. But the homely little classified has grown amazingly to take up the slack. It provided 14 per cent of revenue for the composite in 1947 and for a long time merely held its own. During the 1960s, however, more aggressive promotion brought the classifieds up to provide around 17 per cent of revenue.

Newspaper readers accounted for about one-third of total revenue for the composite paper in 1947. This proportion has slowly declined to about one-quarter.

Advertising accounts for the bulk of newspaper revenue simply because circulation cannot. Most newspapers face a saturated market -- they reach around 80 per cent of the homes within the city zone -- and a definite cost-demand curve. A cost-demand curve is a hypothetical plot of the number of items likely to be sold at any given price. It is of importance to newspapers in two situations: competitive markets and markets where a sizeable proportion of the potential readers have low incomes. Figure 1 illustrates the actual decline in circulation with every increase in price for the Richmond, Va. newspapers. (Many factors work simultaneously in the marketplace, so that this curve should be taken only as an illustration. But since many newspapers face a declining inner city, the cost-demand curve, or price elasticity, has to be taken into account.)

Advertising also has its cost-demand curve, especially for national ads. (Figure 2) But local advertising is relatively non-elastic; that is, reasonable increases will not result in a significant drop in linage because there is no other medium which can deliver the sales at the same price. This may not be true as the wired city becomes more of an economic possibility, but it has allowed publishers to raise ad rates faster than subscription rates. Further, the proportion of the newspaper given to advertising has been steadily growing.

Perhaps the key factor in the growth of advertising revenue has been the

rapid growth in advertising itself. Advertising is estimated at $4.26 billion in 1947 (up from $1.3 billion in 1933), and at $20.6 billion for 1971. While newspapers' share of the ad dollar has dropped from 52.11 per cent in 1947 to around 30 per cent, this still amounted to $8.45 billion in 1975.

Revenue by Circulation

Circulation size has a decided effect on the composition of revenues, as well as total revenues. In 1947, the larger the paper, the more of its income came from subscribers. By 1972, there was little difference between papers of differing circulation. (Table 2)

In 1947, papers with from 10 to 25,000 circulation got 71 per cent of their revenue from ads, while papers topping 100,000 received 61 per cent from ads. The type of advertising also varied. Local ads were the backbone of the smaller papers, but the percentage of national advertising grew as the circulation grew. National ads accounted for less than 10 per cent of the small paper's revenue, but almost 17 per cent of the larger. Classified was about 14 per cent for all papers.

The revenue picture has not remained constant. By the mid-fifties size differences began to disappear. All papers gained in local advertising, but the larger papers made the biggest gains. By the end of the decade, total advertising accounted for 75 per cent of revenue for papers with circulations over 100,000 and under 25,000. Comparable figures for the medium-sized papers were about 70 per cent.

National advertising began its long and continued decline during this period. In the 50s and 60s, local advertising seems to have stabilized at 45 to 50 per cent of all newspaper revenues, but resumed growth in the 70s.

Another change in the 60s was a jump in classified revenue for the medium-size papers. Our data for the 70s is not directly comparable, since it came from

a different source than the earlier E&P figures, but it indicates that classified is now running at 16 to 20 per cent.

EXPENSES

Expenses are generally divided into 11 categories: news-editorial, advertising, circulation, composing, stereo, engraving, press room, administration and general, building and plant, paper and ink, and business and office. Each department's share in the total expense for our composite daily is listed in Table 1 for 1947, 1965, 1972, and 1974.

Newsprint, ink, and handling have always been the largest single expense item, but surprisingly, this category had been shrinking proportionately until the recent meteoric rise from $135 to $280 a ton. Perhaps this has been due more to the increase in back-shop wages than to any savings of newsprint. Typographical scales rose 57 per cent in New York between 1963 and 1971, or 7.1 per cent annually. At the same time, the work week (after which overtime must be paid) was reduced from 36 hours and 15 minutes to 34 hours and a half. Other cities had much more modest raises. Chicago, for example, had an annual increase of only 4.5 per cent, but did cut an hour and a quarter off the work week. Boston matched New York, but Philadelphia settled for an annual increase of 4.7 per cent.

The drop also reflects the depressed state of the paper industry in 1970 and 71. International Paper, the world's largest papermaker, saw its earnings drop from $115.6 million in 1969 to $82.5 in 1970 and $69.3 million in 1971. (1976 earnings are estimated at a very healthy $284 million!)

Overall, the allocation of expenses between departments remained fairly stable from 1947 to 1974, as illustrated by Tables 2 and 3. The great increase in the price of paper and the introduction of computer typesetting may be expected to change the ratios considerably.

Expenses by Circulation

Throughout this period the six chief expenses, regardless of newspaper size, have been paper and ink, composing, editorial, advertising, circulation and administration and general. These account for about 85 per cent of all costs.

Smaller papers and those of up to 50,000 circulation divided their 1947 expenses relatively evenly among these six departments. (Table 3) For the papers with circulations between 10,000 and 25,000, composing room and administrative costs each took about 17 per cent. Papers of 25 to 50,000 spent more money on paper and ink (18.5 per cent), with editorial and composing drawing 17 and 16 per cent respectively.

For the larger papers, almost one-third of total expense was for paper and ink. This is true even though they tend to run more pages because the "first copy costs" -- the money that has to be spent for editorial work, advertising expenses, composition, etc., before the first copy comes off the press -- can be spread out over 100,000 copies instead of 25,000 copies. Paper and ink, on the other hand, goes up directly in proportion to circulation.

Two major trends are evident for all papers: a decline in the proportion of expenses allocated to newsprint and ink, and a simultaneous increase in administrative and general expenses. This is especially noticeable in the larger papers. It is not clear from the available information as to why these expenses have increased so much, though one may suppose that part of the answer lies in the increasing amount of bookkeeping necessary for governmental requirements and in the individual paper's share of a chain's operation. It may be that "administrative and general" should be combined with "all other," to reflect different bookkeeping practices.

Advertising, composition, and news-editorial expenses tend to decline proportionately as circulation rises, since they may be spread out over a larger number of copies. Paper and ink and circulation costs rise as production increases. Paper may go up even more rapidly than circulation, since larger papers normally print more pages.

All in all, allowing for minor and individual fluctuations, the pattern of expenditures today is similar for all newspapers within the size range studied. Larger papers no longer compete for national advertising and, indeed, find themselves facing the heavy expenses involved in zone editions which have become necessary to compete with suburban newspapers for readers and advertisers. Their economies of scale were being offset by the strength of local media.

Economists and historians like to see continuity -- nice smooth lines which enable one to predict tomorrow from yesterday. But as Table 4 indicates, business is not so obliging. Table 4 presents the yearly increase in each of the major items of newspaper expense, figured as a percentage of the previous year. Even ignoring the post-war surge in wages and prices, expenses may go up more than 6 per cent in one year, but drop in the succeeding year, as composing costs did in 1960 and 1961.

REVENUES VS. EXPENSES

Finally, we have examined the relative growth in expenses and revenues for our composite daily, between 1947 and 1965.

With the exception of four years (1955, 59, 62 and 64), expenses increased more rapidly as a proportion of the previous year's budget than did revenues. This does not mean that the composite paper made no profit during this time, but simply that the profit margin has shrunk. (Table 5) In fact, financial analysts generally rate newspapers as significantly more profitable than the median of American industries. For example, Forbes magazine's 1975 survey of American business gives the following rates of return on stockholder equity:

Knight-Ridder News, 13:1%; Gannett, 16.3%; Times Mirror, 17.0%; Washington Post, 15.4%; and the New York Times, 16.1%. The median for all 859 companies surveyed was 13.3% for the previous 12 months.

What size newspaper is the most profitable? Using 1974 figures, we would estimate that papers ranging from 10 to 25,000 could expect a 9.7 per cent return on revenue -- that is, there should be 9.7 cents of profit (before taxes) out of every dollar the paper brings in. A well-managed paper, or a morning-evening combination, may easily double that rate.

The rate of return apparently keeps climibng at least until a newspaper hits 200,000 circulation, and there are only 36 papers in the United States in 1974 with a higher circulation. Papers of that size should be returning around 16 per cent of every dollar of revenue, before taxes. Larger papers which dominate their own territory, seem to drop to a 13 per cent return. Those who do not dominate their own area are very apt to spiral downward out of existence.

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	15, 1950	27, 1963	11, 1970
	7, 1951	18, 1964	18, 1970
	12, 1952	10, 1965	3, 1971
	18, 1953	16, 1966	17, 1971
	10, 1954	23, 1966	1, 1972
	20, 1957	1, 1967	8, 1972
	5, 1958	8, 1967	21, 1973
	4, 1959	20, 1968	May 7, 1949
	16, 1960	5, 1969	May 5, 1973
	15, 1961	19, 1969	

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TABLE 1

Budget Trends For A Composite Newspaper, 1947 - 1972

	1947	1965	1972	1974
Revenue				
Local ads	40.72%	49.86%	51.91%	54.76%
National	12.53	8.52	4.44	3.74
Classified	14.32	17.18	17.42	16.83
Circulation	32.25	24.48	24.98	24.67
Expense				
News-editorial	15.08	13.79	14.64	13.80
Advertising	8.45	9.35	8.05	8.20
Circulation & distribution	12.29	10.57	12.27	11.33
Composition	13.47	14.27	14.76	12.19
Paper, ink & handling	25.28	21.75	16.84	17.63
Administration & general	10.90	13.72	19.12	27.47
All other	14.53	16.55	14.30	9.39

TABLE 2

Sources of Revenue According to Circulation Size, 1947 - 1972

1947	10-25,000	25-50,000	50-100,000	100-200,000
Local advertising	46.45%	44.28%	42.61%	29.54%
National advertising	9.37	10.95	9.78	16.81
Classified advertising	14.65	13.84	14.59	15.23
Total advertising	71.03	68.92	66.97	61.31
Circulation	28.50	30.88	31.68	37.95
1953				
Local advertising	50.05	46.49	43.53	38.49
National advertising	11.90	12.59	13.18	19.16
Classified advertising	10.16	14.87	12.29	16.18
Total advertising	72.89	70.48	69.09	69.90
Circulation	26.51	28.80	30.60	29.27
1957				
Local advertising	54.86	45.19	44.74	42.52
National advertising	8.82	11.52	11.84	17.43
Classified advertising	11.24	13.25	14.15	15.15
Total advertising	75.16	70.45	70.95	75.11
Circulation	23.54	29.41	28.75	24.70
1965				
Local advertising	53.25	46.05	46.63	45.52
National advertising	5.10	6.47	7.33	10.61
Classified advertising	13.19	22.47	17.96	16.30
Total advertising	73.19	75.70	72.21	73.26
Circulation	24.81	21.67	24.91	26.55
1972				
Local advertising	55.16	51.34	49.17	49.27
National advertising	3.49	4.02	5.80	7.80
Classified advertising	16.88	18.15	17.23	18.61
Total advertising	75.53	75.23	72.20	75.68
Circulation	23.88	23.80	27.27	23.93
1974				
Local advertising	57.73	54.00	51.69	49.06
National advertising	3.12	3.66	4.74	5.57
Classified advertising	14.62	16.11	18.49	20.25
Total advertising	75.47	73.77	74.92	74.88
Circulation	24.53	24.23	25.08	25.13

TABLE 3

Expenses By Circulation, 1947-1972

	10-25,000	25-50,000	50-100,000	100-200,000
1947				
News-editorial	15.52	17.42	13.76	13.45
Advertising	9.67	10.30	7.09	7.52
Circulation & distribution	9.28	10.18	13.45	16.25
Composition	16.99	16.17	12.66	7.54
Newsprint, Ink and handling	15.08	18.50	29.50	34.77
Administrative & general	16.78	10.35	9.36	8.39
All other	18.58	17.08	14.34	12.03
1965				
News-editorial	14.24	15.13	15.68	12.00
Advertising	11.64	8.65	9.78	6.77
Circulation & distribution	8.39	10.78	8.72	14.82
Composition	17.46	16.19	13.15	10.68
Newsprint ink & handling	13.69	16.90	21.41	32.37
Administrative & general	22.09	13.66	16.86	9.45
All other	13.73	18.66	15.99	14.09
1972				
News-editorial	14.00	13.05	15.50	13.03
Advertising	10.10	8.10	7.90	7.72
Circulation & distribution	8.99	10.01	13.20	13.50
Composition	15.20	15.85	15.10	11.25
Newsprint, ink & handling	13.70	17.02	16.96	23.60
Administrative & general	25.90	18.20	17.13	19.02
All other	12.20	17.75	14.25	12.05
1974				
News-editorial	14.08	13.83	13.62	13.43
Advertising	9.34	8.34	7.50	6.85
Circulation & distribution	9.96	11.07	12.26	13.36
Composition	12.76	12.20	11.87	11.53
Newsprint, ink & handling	13.42	16.69	20.56	24.57
Administrative & general	30.34	27.83	25.68	23.96
All other	10.11	10.03	8.52	6.30

TABLE 4

Annual Percentage Increase in Expenses by Circulation Size

10-25,000	1947	1949	1951	1953	1956	1957	1960	1962	1964
Composing	30.75	9.83	19.97	6.55	2.03	4.68	5.05	3.92	8.11
Paper & ink	50.38	8.13	15.88	8.14	2.29	3.42	6.65	4.60	7.49
Editorial	12.40	8.94	15.34	10.13	8.67	5.59	4.68	4.21	6.12
Advertising	31.02	11.76	10.39	4.59	4.21	2.34	6.53	5.25	7.89
Circulation	19.69	5.66	9.06	3.29	3.75	8.57	3.65	6.78	5.10
Administrative and general	21.26	11.44	13.06	10.93	13.12	.82	4.39	.23	4.40
25-50,000									
Composing	26.35	7.27	6.74	9.38	3.28	2.57*	5.59	6.38	6.30
Paper & ink	46.06	5.45	11.14	9.10	3.88	1.14	.79	4.52	5.91
Editorial	16.47	10.55	6.72	7.64	5.04	3.12	2.69	7.89	4.51
Advertising	22.10	12.27	6.70	10.99	2.67	-.25	3.98	3.56	4.37
Circulation	13.93	6.56	10.58	10.44	2.58	2.64	3.80	4.80	8.28
Administrative and general	14.36	18.44	7.71	10.04	3.47	1.66	6.36	-4.10	5.10
50-100,000									
Composing	28.66	8.58	6.39	6.73	5.31	.95*	6.59	2.95	2.42
Paper & ink	41.90	-1.36	11.70	11.76	7.35	-2.55	5.95	4.09	6.16
Editorial	14.70	6.49	3.22	3.57	6.37	1.72	6.92	2.09	4.11
Advertising	21.46	9.37	4.96	12.21	5.79	.52	2.82	4.19	5.13
Circulation	13.82	1.18	3.27	5.50	12.01	3.38	5.87	4.50	6.44
Administrative and general	52.46	3.69	2.78	6.61	7.43	.34	5.16	2.87	1.51
100-200,000									
Composing	28.06	15.10	7.89	4.81	9.39	-.10	7.58	3.74	5.28
Paper & ink	46.01	5.05	8.77	6.95	5.05	-.52	3.86	2.94	5.01
Editorial	17.10	5.94	4.39	3.82	6.02	2.43	6.59	4.17	5.48
Advertising	15.75	6.40	10.20	6.93	9.13	-.31	5.46	4.26	5.34
Circulation	19.19	9.30	6.27	9.76	6.73	.09	7.24	4.67	5.94
Administrative and general	9.89	1.90	8.04	5.61	2.83	3.94	6.22	3.87	4.61

*Figures for 25-50,000 and 50-100,000 are for 1958 instead of 1957.

TABLE 5

Annual Increase in Revenue and Expenses For A Composite Daily

	Revenue	Expense
1947	24.12%	28.09%
1948	15.06	20.04
1949	7.87	9.34
1950	3.07	6.85
1951	8.82	9.34
1952	8.58	9.95
1953	8.40	8.95
1954	1.61	3.01
1955	8.41	6.02
1956	4.19	5.66
1957	1.53	3.59
1958	.62	2.09
1959	7.33	5.78
1960	4.87	5.55
1961	.40	1.48
1962	5.26	3.59
1963	5.04	6.28
1964	7.39	6.36
1965	6.75	6.81

FIGURE 1

Cost-Demand Curve For Richmond, Va., Times-Dispatch, 1967-1972

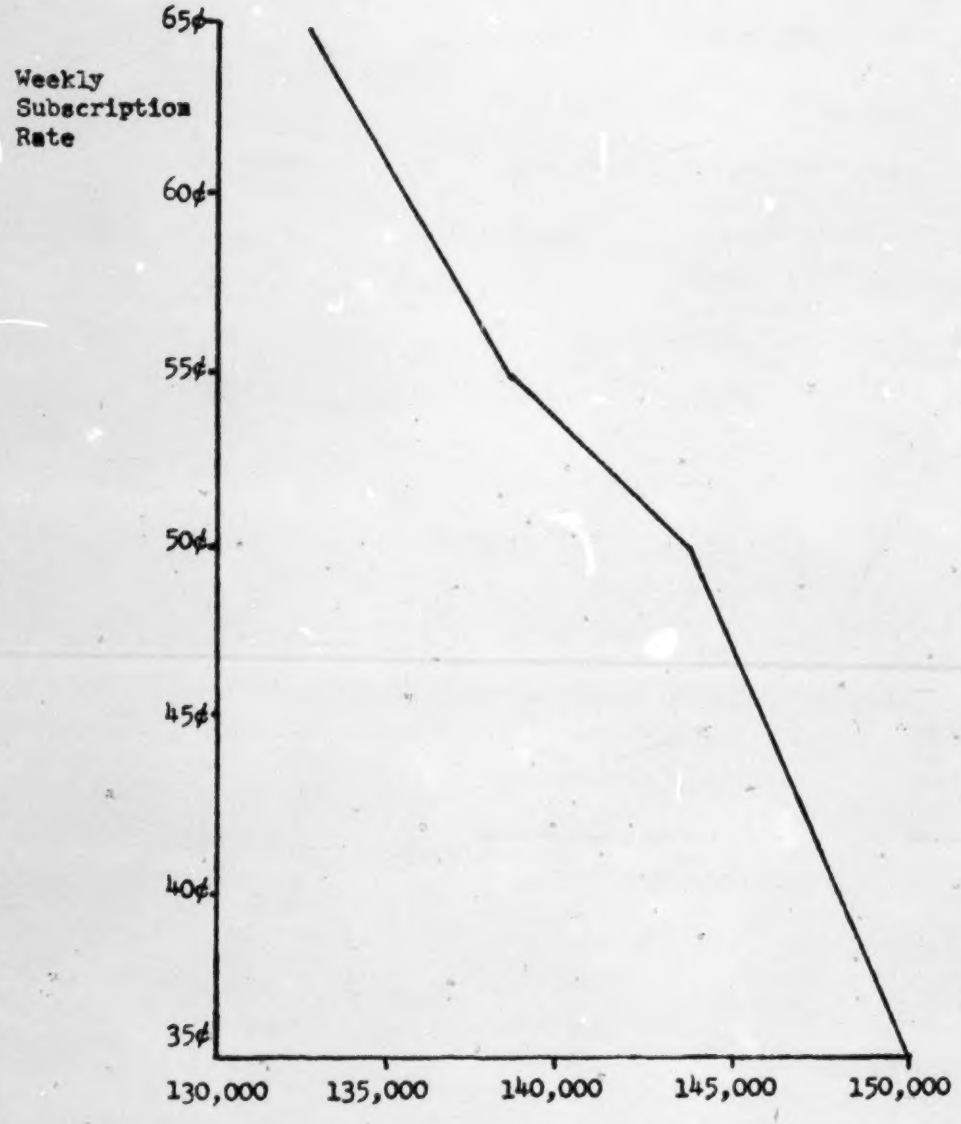
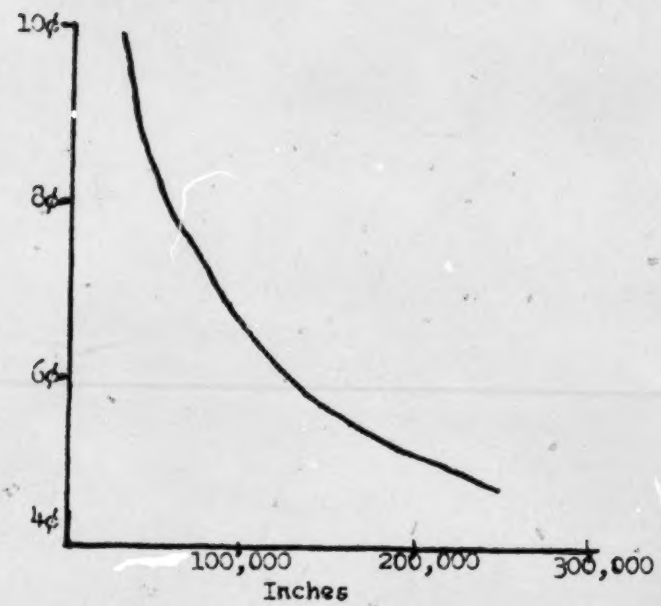


FIGURE 2

Hypothetical Demand Curve For National Advertising/CPM



Drawn from industry records showing the amount of national advertising placed in various papers at various costs per 1,000 subscribers (National rate per inch x 1,000 divided by circulation).